

Message Text

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SUBJECT: ECONOMIC SITREP NO. 35, WEEK OF DECEMBER 24-30

REF: A. ROME 20821 B. ROME 20758

1. SUMMARY. LIRA'S BEHAVIOR AFTER PARIAL DISMANTLING OF FOREIGN EXCHANGE PURCHASE TAX SEEN AS ENCOURAGING, BUT NOT DEFINITIVE. THIRD MEETING OF GOVERNMENT AND UNION LEADERS ON ECONOMIC POLICY AND COST OF LABOR WHICH WAS TO HAVE TAKEN PLACE DECEMBER 29 WAS POSTPONED TO JANUARY 5. UNIONS HAD NEW ROUND OF TALKS WITH ECONOMIC EXPERTS OF MAJOR PARTIES WITH MOST COMING DOWN ON SIDE OF SOME MODIFICATION WAGE ESCALATOR. PRIMIN ANDREOTTI'S COMMENT ON TELEVISION INTERVIEW RE NEW FISCAL MEASURES FOR 1977 REFUELED DEBATE BETWEEN MINTREAS STAMMATI AND MINFIN PANDOLFI ON SUFFICIENCY OF PRESENT REVENUE MEASURES FOR 1977 EXPENDITURES. COUNCIL OF MINISTER MEETING DECEMBER 30 TOOK UP TICKLISH PROBLEM OF SOME FINANCIAL PROPPING OF EGAM COMPANIES IN CRISIS. END SUMMARY.

2. LIRA DIPPED THEN STEADIED. BEST NEWS OF WEEK WAS BEHAVIOR OF LIRA AFTER FOREIGN EXCHANGE TAX REDUCED FROM 7 TO 3.5 PERCENT. ON FIRST DAY OF TRADING (DECEMBER 27) LIRA SLIPPED 1.2 PERCENT FROM 865.975 CLOSING PRICE ON
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DECEMBER 24 TO 875.0. AT FIXING ON DECEMBER 27. THE LIRA HAS HELD AT THAT RATE THROUGHOUT THE WEEK WITH DEMAND FOR DOLLARS ABOVE "PRE-TAX" LEVELS. PRESS HAS GENERALLY ASSUMED THAT LIRA HEAVILY PROPPED BY BANK OF ITALY INTERVENTION, BUT MOST LIKELY ACTION HAS BEEN GENTILE GUIDANCE TOWARDS, HOPEFULLY, A FUTURE SOFT LANDING. SOMEWHAT SURPRISINGLY,

DOLLARS APPEAR TO BE IN SUFFICIENT SUPPLY TO MEET DEMAND WITHOUT LARGE DRAW-DOWN OF BANK OF ITALY RESERVES. MANNER OF LIRA RE-ENTRY MILDLY ENCOURAGING WITH EFFECTIVE COST OF DOLLAR DROPPING FROM 925 TO 906 BUT HIS WEEK'S PERFORMANCE SHOULD NOT BE TAKEN AS DEFINITIVE WHILE PROBLEM OF LABOR COSTS IS STILL ON FRONT BURNER. (MIN FOR TRADE OSSOLA, IN DECEMBER 29 INTERVIEW WITH LA STAMPA, SAID MUCH THE SAME THING.)

3. LIRA RATE FIXED AT 875.075 ON DECEMBER 30 AND MARKET WILL BE OPEN PART OF DECEMBER 31. ON MONDAY, JANUARY 3, FOREIGN EXCHANGE TAX WILL AUTOMATICALLY MOVE FROM 3.5 TO 3 PERCENT. DECREE LAW PROVIDING FOR PHASE-DOWN DID NOT FIX NEW REMOVAL DATE FOR TAX WHICH UNDER ORIGINAL DECREE WILL EXPIRE FEBRUARY 18.

4. LABOR AND GOVERNMENT THIRD ROUND. THIRD MEETING OF LABOR AND GOVERNMENT LEADERS ON INCESTMENT POLICY AND LABOR COSTS WHICH WAS TO HAVE TAKEN PLACE ON DECEMBER 29 WAS POSTPONED UNTIL JANUARY 5. POSTPONEMENT WAS MOST LIKELY MOTIVATED BY NEED FOR MORE TIME TO DEVELOP ANSWERS TO QUESTIONS RAISED AT LAST MEETING.

5. LABOR AND PARITES ECONOMIC EXPERTS MEET AGAIN. LABOR HAD NEW ROUND OF TALKS WITH ECONOMIC EXPERTS OF MAJOR PARTIES WITH MOST PARTIES FAVORING SOME FORM OF MODIFICATION OF WAGE ESCALATOR. PARTIES' POSITIONS ON THREE OF MAJOR ISSUES OF DAY (I.E., WAGE ESCALATION, FISCALIZATION, AND RATIONING) EMERGED IN PRESS STATEMENTS AS FOLLOWS.

6. DC (FERRARI AND AGGRADI). WAGE ESCALATOR PAYMENTS LIMITED OFFICIAL USE

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SHOULD BE MADE SEMI-ANNUALLY RATHER THAN QUARTERLY AND PERVERSITIES OF SYSTEM REVISED. FISCALIZATION (GOVERNMENT ASSUMPTION OF SOME SOCIAL INSURANCE COSTS BORNE BY EMPLOYERS) OF UP TO 3,000 BILLION LIRE SHOULD BE FINANCED BY INCREASING VALUE ADDED TAX (VAT), BUT GRADUALLY. ON RATIONING (OF FRESH BEEF), IT WAS RECOGNIZED THAT BLACK-MARKETEERING WOULD BE DIFFICULT TO CONTAIN.

7. PCI (NAPOLITANO AND BARCA). "PERVERSE EFFECTS" OF WAGE ESCALATOR NEED TO BE CORRECTED AND "MARKET BASKET" IS A PROBLEM, BUT SHIFTING PAYMENTS FROM QUARTERLY TO SEMI-ANNUALLY SHOULD BE DONE ONLY FOR THOSE WHOSE ANNUAL INCOMES ARE ABOVE 6 OR 7 MILLION. FISCALIZATION SHOULD TAKE PLACE OVER A PERIOD OF YEARS AND BE FINANCED BY INCREASING CORPORATE INCOME TAXES. AS FOR RATIONING, WHILE IT IS GOOD TO HAVE A PLAN FOR IT, IMPORTS OF FRESH BEEF HINDQUARTERS SHOULD BE BLOCKED BY DECREE LAW.

8. PSI (SIGNORILE AND CICCHITTO). THE WAGE ESCALATOR HAS BECOME A SIEVE, WHAT WITH THE GOVERNMENT DECREE (PARIAL FREEZE), CORRECTION OF ANOMALIES, ETC. ESSENTIALS OF ESCALATOR MUST BE MAINTAINED, BUT THAT CARRIES A PRICE WHICH THE UNIONS MUST PAY (SIC). SUPPORT FOR FISCALIZATION IN AMOUNT OF 1,500 BILLION LIRE WAS GIVEN. (PSI HAS GONE ON RECORD IN PAST OF OPPOSING INCREASE IN VALUE ADDED TAX TO FINANCE FISCALIZATION AND SUPPORTING A GENERAL INCOME TAX INCREASE. PSI IN THE PAST HAS ALSO ADVOCATED RATIONING.)

9. PRI TREZZA). THE ESCALATOR PAYMENTS SHOULD BE MADE SEMI-ANNUALLY, THE "BASKET" MODIFIED, AND PLANT LEVEL WAGE CONTRACTS FROZEN.

10. POSSIBLE NEW TAXES REMAIN AN OPEN QUESTION. PRIMIN ANDREOTTI'S COMMENT ON HOUR-LONG "MEET THE PRESS" TYPE INTERVIEW THAT 1977 WILL REQUIRE "NEW FISCAL SACRIFICES" LIMITED OFFICIAL USE

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BY ITALIANS DID NOTHING TO PUT TO REST THE DEBATE ON POSSIBLE NEW TAXES RAGING BETWEEN MINISTERS OF FINANCE AND TREASURY. MINFIN PANDOLFI HAS INTERPRETED THE STATEMENT TO PRESS AS SUPPORTING HIS VIEW THAT ONLY NEW TAXES LIKELY NEXT YEAR ARE INCREASES IN VALUE ADDED TAX TO FINANCE FISCALIZATION MEASURES ONCE DECIDED. HE INSISTS THAT THERE WILL BE NO NEW INCOME TAXES AND CONTINUES TO ASSERT THAT DECISIONS ON NEW TAXES COULD NOT BE MADE IN ANY CASE UNTIL AFTER FIRST OF YEAR WHEN EFFECTIVENESS OF NEW MEASURES TO COMBAT TAX EVASION AND OTHER MEASURES WILL GIVE A MORE DEFINITE PICTURE OF INCOME NEXT YEAR. MINTREAS STAMMATI ON OTHER HAND ASSERTS THAT PRIMIN'S STATEMENT CONFIRMS HIS POSITION THAT ANY NEW EXPENDITURES CONSTITUTIONALLY REQUIRES NEW SOURCES OF REVENUES. THE DEBATE IS BEGINNING TO TAKE ON SEMANTICAL OVERTONES WITH THE LIKELIHOOD GROWING OF NEW FISCAL MEASURES OTHER THAN VALUE ADDED TAX INCREASES.

11. BAIL-OUT FOR EGAM COMPANIES PARTIALLY DECIDED. COUNCIL OF MINISTERS DID NOT TAKE DECISION AS WAS GENERALLY EXPECTED LAST WEEK ON DECREE FOR TEMPORARY ASSISTANCE (335 BILLION LIRE) TO SEVEN EGAM COMPANIES WHICH ARE GOING INTO BANKRUPTCY. PROBLEM IS PARTICULARLY TICKLISH BECAUSE OF: A) NUMBER OF JOBS INVOLVED (OVER 18,000) IS STRONG HINDRANCE TO PERMITTING COMPANIES SIMPLY TO LIQUIDATE, AND 2) POLITICAL SENSITIVITY OF SIMPLY BAILING OUT STATE ENTERPRISES WITH PUBLIC MONIES WHEN THEY CLEARLY HAVE SHOWN THEMSELVES AS UNCOMPETITIVE. HOWEVER, COUNCIL OF MINISTER DID APPROVE IN MEETING TODAY (DECEMBER 30) A SCHEME OF LEGISLATIVE MEASURES

REGARDING EGAM INCLUDING A SPECIAL CONTRIBUTION (90 BILLION LIRE)
WHICH WILL PERMIT THE MOST IMMEDIATE AND PRESSING FINANCIAL
PROBLEMS OF THE GROUP TO BE TAKEN CARE OF, PARTICULARLY
SALARIES AND NON-DEFERRABLE DEBTS. THE OVERALL PROBLEM
OF REORGANIZATION WILL BE ADDRESSED IN THE NEAR FUTURE
AND, IN THE MEANTIME, ALL LIQUIDATION PROCEEDINGS HAVE BEEN
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